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FISCAL IMPACT STATEMENT

LS 7214 | **NOTE PREPARED:** Apr 22, 2013
BILL NUMBER: HB 1561 | **BILL AMENDED:** Mar 14, 2013

SUBJECT: 1977 Fund Membership.

FIRST AUTHOR: Rep. Harman | **BILL STATUS:** Enrolled
FIRST SPONSOR: Sen. Head

FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill permits a police officer or firefighter who: (1) is an active member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) with an employer that participates in the 1977 Fund; and (2) separates from that employer; and (3) becomes employed as a full-time police officer or firefighter with a second employer that participates in the 1977 Fund not later than 180 days after separation from the first employer; is a member of the 1977 Fund without meeting for a second time the age limitations and the physical and mental requirements for admission to the 1977 Fund. The bill exempts from the 180-day limitation a member of the 1977 Fund who is eligible for reinstatement with a police or fire department following a layoff for financial reasons.

The bill provides that a police officer or firefighter who has been employed as a full-time police officer or firefighter with more than one employer that participates in the 1977 Fund is entitled to receive credit for all years of 1977 fund-covered service as a police officer or firefighter with all employers that participate in the 1977 Fund.

Effective Date: July 1, 2013.

Explanation of State Expenditures: The bill would affect the Indiana Public Retirement System (INPRS) as the administrator of the 1977 Fund. The bill's requirements are within INPRS' routine administrative functions and should be able to be implemented with current agency staffing and resource levels. The costs associated with the pension funds overseen by INPRS are typically paid out of investment income from funds.

Explanation of State Revenues:

Explanation of Local Expenditures: The bill allows 1977 Fund members to move from one jurisdiction (city or town) that is an employer in the 1977 Fund to another jurisdiction that is an employer in the 1977 Fund, without meeting for a second time the age limitation of 36 years and the physical and mental testing requirements for admission. The move from one jurisdiction to another must take place within 180 days after the date of the separation from the first jurisdiction. An exception from this 180-day provision is made for those members who are laid off by their respective jurisdiction for financial reasons and are eligible for reinstatement.

For the 1977 Fund, normal retirement age is 52 with 20 years of service. Full pension benefits (unreduced due to early retirement) under the 1977 Fund equal 50% of the monthly salary of a first class officer (as determined by the member's city) in the year the member ended service. Pension benefits increase for every additional year of service over 20 years, up to 12 years of additional service, or 74% of the salary of a first class officer.

The bill may increase or decrease the normal cost for a given member, depending upon the first class officer salary in each of the jurisdictions in which the member is employed as a member of the 1977 Fund. Any resulting decreases or increases in the unfunded actuarial liability will impact the employer contribution rate. As employers in the 1977 Fund all pay the same employer contribution rate, changes in the rate will affect all participating jurisdictions.

The 1977 Fund is funded through employer (city and town) contributions, which are 19.7% of payroll as of CY 2013, as well as through member contributions, which are 6% of the salary of a first class officer. For prefunded plans, costs are defined as the increase in the unfunded actuarial liability of the fund. The ultimate cost of this bill, therefore, will be any increase in the unfunded actuarial liability resulting from the provisions of the bill.

As of July 1, 2012, the 1977 Fund had a 92% funding ratio and 16,720 members.

Explanation of Local Revenues:

State Agencies Affected: Indiana Public Retirement System.

Local Agencies Affected: Cities and towns.

Information Sources: *Indiana Pension Handbook (2012)*.

Fiscal Analyst: Stephanie Wells, 232-9866.

Definitions: *Unfunded Actuarial Liability* -Sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Funding Ratio - A ratio of a pension or annuity's assets to its liabilities.

Prefunded Plan - Prefunded plans are funded through contributions (from employees, employers, and/or other sources) that are actuarially calculated to equal the benefit accrual cost for the year (normal cost) plus a 30-year amortization of the unfunded actuarial liability.

Normal Cost - The normal cost is the current value of benefits likely to be paid on account of a member's service being rendered in the current year.